

## ISSUER COMMENT

23 October 2019

### RATING

#### General Obligation (or GO Related) <sup>1</sup>

Aa2 No Outlook

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## Grand Traverse County, MI

### Annual Comment on Grand Traverse County

#### Issuer Profile

Grand Traverse County is located in the northwestern region of Michigan's Lower Peninsula, bounded on the north by Grand Traverse Bay. The county seat of Traverse City is approximately 125 miles northwest of Saginaw. The county has a population of 91,222 and a moderate population density of 196 people per square mile. The county's median family income is \$71,745 (2nd quartile) and the August 2019 unemployment rate was 3.1% (2nd quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are health services, retail trade, and accommodation/food services.

#### Credit Overview

The credit position for Grand Traverse County is strong, and its Aa2 rating is level with the US counties median of Aa2. Key credit factors include a healthy financial position, an extensive tax base and an average wealth and income profile. It also reflects a negligible debt burden and a somewhat inflated pension liability.

**Finances:** The financial position of the county is healthy and is relatively favorable when compared to the assigned rating of Aa2. The fund balance as a percent of operating revenues (50.8%) is higher than the US median. Moreover, the cash balance as a percent of operating revenues (35.2%) is roughly equivalent to the US median.

**Economy and Tax Base:** Overall, the county has a strong economy and tax base, which are a modest credit strength in relation to the assigned rating of Aa2. The total full value (\$12.6 billion) is slightly above the US median. Moreover, the full value per capita (\$136,642) is much stronger than other counties we rate nationwide. Lastly, the median family income is 101.3% of the US level.

**Debt and Pensions:** The debt burden of Grand Traverse County is light and is roughly comparable with its Aa2 rating. The net direct debt to full value (0.4%) is on par with the US median. On the contrary, the pension liability of the county is somewhat elevated and is a weakness when compared to the assigned rating of Aa2. The Moody's-adjusted net pension liability to operating revenues (2.5x) is materially higher than the US median.

**Management and Governance:** Michigan counties have an institutional framework score <sup>3</sup> of "A," or moderate. Counties rely on property tax and state aid revenues, which in combination are moderately predictable. Counties have moderate revenue-raising ability, since they face limits on taxable valuation growth (Proposal A) and revenue growth (Headlee Amendment). The Headlee Amendment also creates a permanent reduction in the millage rate, although a voters can approve an override. Expenditures primarily consist of public safety, court, and healthcare expenses, which are moderately predictable. Counties have a

moderate ability to reduce expenditures. While Michigan's constitution provides protections for accrued pension benefits, changes can be made to future benefits.

## Sector Trends - Michigan Counties

Most Michigan counties have returned to balanced financial operations through expenditure reductions or revenue enhancements. Counties' primary operating revenues (state aid and property tax receipts) have stabilized, due to recovering real estate values which we expect to continue. Employment trends have stabilized and continue to improve in certain regions. Most counties continue to benefit from material additional reserves and liquidity in their Delinquent Tax Revolving Fund (DTRF) funds. A minority of counties in the state have not implemented sufficient budgetary adjustments since the economic downturn and remain structurally imbalanced with declining reserves that continue to face negative credit stress.

EXHIBIT 1

### Key Indicators <sup>4 5</sup> Grand Traverse County

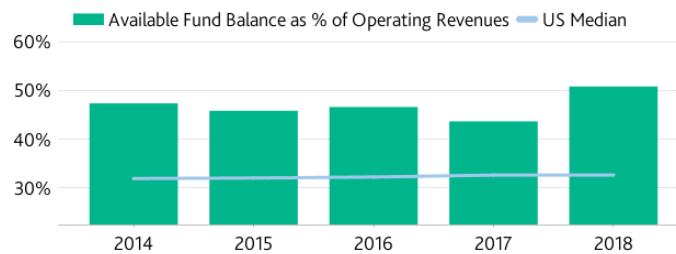
|   | 2014      | 2015      | 2016      | 2017      | 2018      | US Median | Credit Trend |
|---|-----------|-----------|-----------|-----------|-----------|-----------|--------------|
| <b>Economy / Tax Base</b>   |           |           |           |           |           |           |              |
| Total Full Value  | \$10,648M | \$11,056M | \$11,522M | \$12,154M | \$12,649M | \$7,665M  | Improved     |
| Full Value Per Capita   | \$119,677 | \$122,976 | \$127,021 | \$133,239 | \$136,642 | \$85,725  | Improved     |
| Median Family Income (% of US Median)                                       | 101%      | 101%      | 101%      | 101%      | 101%      | 93%       | Stable       |
| <b>Finances</b>   |           |           |           |           |           |           |              |
| Available Fund Balance as % of Operating Revenues                           | 47.3%     | 45.8%     | 46.5%     | 43.6%     | 50.8%     | 32.5%     | Stable       |
| Net Cash Balance as % of Operating Revenues                                 | 27.5%     | 22.8%     | 27.9%     | 29.2%     | 35.2%     | 37.8%     | Improved     |
| <b>Debt / Pensions</b>  |           |           |           |           |           |           |              |
| Net Direct Debt / Full Value  | 0.2%      | 0.2%      | 0.1%      | 0.4%      | 0.4%      | 0.5%      | Stable       |
| Net Direct Debt / Operating Revenues  | 0.51x     | 0.45x     | 0.39x     | 1.06x     | 1.01x     | 0.59x     | Weakened     |
| Moody's-adjusted Net Pension Liability (3-yr average) to Full Value         | 0.9%      | 0.9%      | 0.8%      | 0.8%      | 0.9%      | 1.1%      | Stable       |
| Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues | 2.41x     | 2.33x     | 2.33x     | 2.21x     | 2.54x     | 1.38x     | Stable       |
|   | 2014      | 2015      | 2016      | 2017      | 2018      | US Median |              |
| <b>Debt and Financial Data</b>  |           |           |           |           |           |           |              |
| Population  | 88,981    | 89,907    | 90,715    | 91,222    | 92,573    | N/A       |              |
| Available Fund Balance (\$000s)   | \$18,730  | \$18,877  | \$19,278  | \$18,539  | \$22,223  | \$24,307  |              |
| Net Cash Balance (\$000s)   | \$10,906  | \$9,422   | \$11,576  | \$12,420  | \$15,421  | \$27,626  |              |
| Operating Revenues (\$000s)   | \$39,619  | \$41,258  | \$41,434  | \$42,552  | \$43,786  | \$72,972  |              |
| Net Direct Debt (\$000s)  | \$20,099  | \$18,564  | \$15,997  | \$45,201  | \$44,353  | \$40,162  |              |
| Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)              | \$95,551  | \$96,209  | \$96,442  | \$94,203  | \$111,123 | \$89,312  |              |

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## EXHIBIT 2

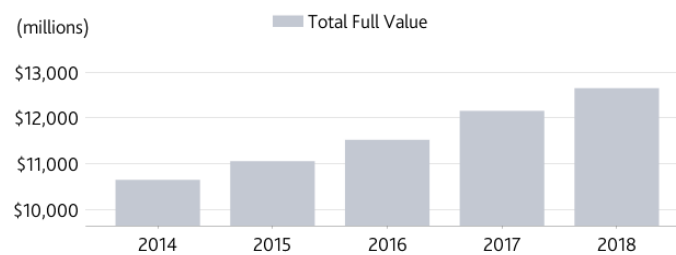
## Available fund balance as a percent of operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

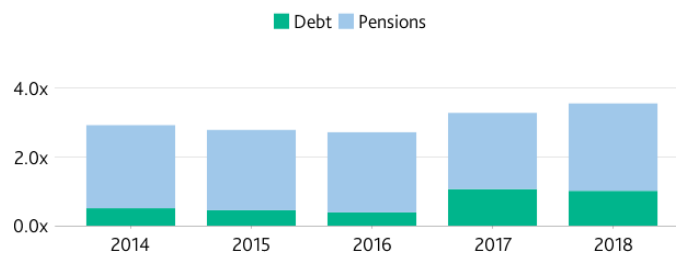
## Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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